



SANIX INCORPORATED

Consolidated Financial Summary

For the Fiscal Year ended March 31, 2013

The financial figures in this document are based on Japanese Accounting Standards and accompanying laws. Amounts are rounded off to 1 decimal place. This document is an English translation of the Japanese-language original.

Consolidated Financial Statements

For the Fiscal year ended March 31, 2013

SANIX INCORPORATED

Stock Listed: Tokyo Stock Exchange First Section, Osaka Stock Exchange First Section, Fukuoka Stock Exchange

Code No.: 4651

URL: http://sanix.jp/index_e.htm

President and CEO: Shin-ichi Munemasa

Contact: Kozo Inoue, General Manager, Management and Planning Division

1. Consolidated Financial Highlights for the Year ended March 31, 2013

(April 1, 2012 to March 31, 2013)

(1) Consolidated Operating Results (Millions of Yen)

	Fiscal Year			
	between April 1 and March 31			
	FY2011	% change	FY2012	% change
Net Sales.	31,454	8.5	43,366	37.9
Operating Income.	409	(18.3)	1,870	356.4
Recurring Profit.	347	(19.1)	1,788	414.1
Net Income.	13	(71.8)	1,575	-
Net Income per Share(¥).	¥0.29	-	¥33.01	-
Net Income per Share, Diluted(¥).	-	-	-	-
Return on Equity.	0.2%	-	19.8%	-
Ratio of Recurring Profit to Net Assets.	1.7%	-	7.1%	-
Ratio of Operating Income to Net Sales.	1.3%	-	4.3%	-
(Reference) Comprehensive income.	32	-	1,629	-

(2) Consolidated Financial Position (Millions of Yen)

	As of March 31	
	FY2011	FY2012
Total Assets.	21,286	29,196
Net Assets.	7,134	8,837
Shareholders' Equity Ratio (%).	33.4%	30.2%
Net Assets per Share (¥).	148.95	184.62

Note (1) Shareholders' equity Fiscal Year ended March 31, 2013 7,957million yen
Fiscal Year ended March 31, 2012 7,106 million yen

(3) Consolidated Financial Cash Flows (Millions of Yen)

	Fiscal Year	
	from April 1 to March 31	
	FY2011	FY2012
Cash Flows from Operating Activities.	1,260	2,184
Cash Flows from Investing Activities.	(151)	(222)
Cash Flows from Financing Activities.	(881)	230
Balance of Cash and Cash Equivalents at End of Period.	1,365	3,547

2. Dividends

	Fiscal Year		
	from April 1 to March 31		
	FY2011	FY2012	FY2013(Forecast)
Dividend per Share at the end of 1st Half (¥). . .	¥0.00	¥0.00	¥0.00
Dividend per Share at the end of the year (¥). . .	¥0.00	¥0.00	¥0.00
Annual dividend per Share (¥).	¥0.00	¥0.00	¥0.00
Total dividend.	-	-	-
Pay-out ratio (%).	-	-	-
Ratio of dividend to total capital (%).	-	-	-

3. Forecasts for Consolidated Business Results

(For the fiscal year ending March 31, 2014)

(Millions of Yen)

	FY2013			
	First Half	% change	Full Year	% change
Net Sales.	34,100	87.5%	71,500	64.9%
Operating Income.	2,825	438.8%	8,000	327.7%
Recurring Profit.	2,800	450.4%	7,950	344.4%
Net Income.	1,680	342.9%	5,100	223.8%
Net Income per Share(¥).	¥35.21		¥106.90	

4. Others

(1) Changes in significant subsidiaries during FY2012: Yes SANIX ENGINEERING INCORPORATED

(2) Changes in accounting principles, procedures, and the presentation

1) Changes due to revisions of accounting standards etc: Adopted

2) Changes other than 1): No

(3) Number of Shares Issued and Outstanding

(Shares)

	As of March 31	
	FY2011	FY2012
Number of shares issued and outstanding at period end.	48,919,396	48,919,396
Number of treasury stocks at period end.	1,210,021	1,210,375
Average Number of shares outstanding during the period.	47,709,406	47,709,229

Indication of audit procedure implementation status

This earnings report is exempt from audit procedure based upon the Financial Instruments and Exchange Act. It is under the audit procedure process at the time of disclosure of this report.

Note to ensure appropriate use of forecasts:

Forecasts in this document are based on assumptions, prospects and plans as of the date of this document. Actual results may differ significantly from these forecasts, due to various factors affecting the Company's business performance, such as change in economical conditions.

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I. Business Results

1. Earnings

(1) Current Fiscal Year Overview

Since the regime change took place in last December, the Japanese yen has depreciated and the stock markets have gone up in the expectation of better economic policies, although some concerns have been revealed in the Japanese economy in the current fiscal year, such as the prolonged problems of the European sovereign debt crisis, deceleration of the emerging economies, deteriorating relationships with neighboring countries, including territorial disputes. There are also signs of recovery in consumer activity, corporate productions and capital investments.

Under such circumstances, our group has sold and undertaken construction of residential solar power for about 15,000 households so far. In addition, encouraged by the government's active promotion for the use of green energy, including the "Renewable Energy Feed in Tariff Purchasing Program" started in July 2012, we have concentrated our business resources in commercial solar power, which is expected to become a huge market, while stimulating demand for it. As a result, we have determined to consider that Commercial solar power as the green energy business and electricity sales (recycling waste plastic to be used as energy) are the two important pillars of our group.

Since the commercial solar power business starts to contribute to our financial state from the current fiscal year, we will newly add the "Commercial Photovoltaic (PV) Solution Division" in addition to the existing "Home Sanitation (HS) Division," "Establishment Sanitation (ES) Division" and "Environmental Resources Development (ERD) Division" as the four business divisions to be disclosed. On this new operating segment, in which results of sales of Commercial Photovoltaic system, wholesale of components for Photovoltaic system are reported. Consequently, new business segments are applied for the figures compared with a year earlier in the following comparison table.

The Net Sales of the Commercial PV Solution(CPS) Division for the current fiscal year have increased 581.6% compared to the year-earlier period, with the "commercial solar power system" contributing to the sales, the construction of which started in full scale during the fourth quarter of this fiscal year. The HS Division recorded a revenue growth in sales of "residential solar power system" but saw a decline in termite control business and other construction businesses due to the personnel cut after the corporate structural reform, resulting in the 3.8% decrease in the overall revenue of the division compared to a year earlier. The ES Division recorded 43.8% increase, with the commercial solar power systems for buildings and condominiums contributing to the result. In the Environmental Resources Development (ERD) Division, the revenues from plastic fuel increased due to the increase in terms of volume and those from the electricity sales also increased because Tomakomai Power Plant started to be in stable operation, resulting in the 25.9% increase in overall revenues compared to the year earlier period. As a consequence, the Net Sales of the entire group were 43,366 million yen, or up 37.9% from a year earlier.

In terms of profitability, the CPS Division turned profitable mainly due to the inauguration of the "Renewable Energy Feed in Tariff Purchasing Program," commitment of advertising expenses to stimulate demand for the "commercial solar power system" and re-organization of the sales and construction structure, resulting in overall increase in profit. In the HS Division, termite control business recorded a profit decline due to the shift to the commercial solar power business and to the personnel cut after the corporate structural reform, resulting in overall decrease in profit for the whole division. The ES Division recorded significant increase in profit due to the sales growth. The ERD Division also recorded significant profit increase due to revenue growth in plastic fuel and electricity sales in addition to the cost reduction. As a consequence, for the whole group, the operating income

increased 356.4% to 1,870 million yen and the ordinary income was up 414.1% to 1,788 million yen, with the net income increasing to 1,575 million yen from 13 million yen of net income in the year earlier period.

		Millions of Yens			
Consolidated Results	Operating	FY2011	FY2012	Rate of Change(%)	Diference
	Net Sales	31,454	43,366	37.9	11,911
	Operating Income	409	1,870	356.4	1,460
	Ordinary Income	347	1,788	414.1	1,440
	Net Income	13	1,575	-	1,561

Consolidated results of individual divisions for the year were as follows:

Earnings of Individual Divisions:

Commercial Photovoltaic Solution (CPS) Division

Many of the business resources, including human resources, were transferred from the HS Division to the CPS Division as part of the restructure, and in the 4th quarter of the current fiscal year, the sales of commercial solar power system started to contribute fully to the overall revenues, including the wholesales of commercial solar power modules and other components. As a result, the sales increased 581.6% to 9,617 million yen compared to the year-earlier period.

The operating income was 320 million yen compared to the loss of 265 million yen in the same period of a year earlier, absorbing initial costs for sales and advertising costs for newspaper ads and others.

Home Sanitation (HS) Division

The sales of residential solar power system increased 52.7% compared to last year. Revenues of the existing products, on the other hand, such as “termite control” and “sub-floor/roof ventilation system,” decreased 31.2% compared to last year with the personnel transferred to the CPS Division. As a result, the Net Sales of the division decreased 3.8% to 14,814 million yen compared to the year-earlier period.

The operating income decreased 28.5% to 1,775 million yen compared to the same period of a year earlier, due to the decrease in sales of existing products with worse net sales raw material ratio.

Establishment Sanitation (ES) Division

The sales of solar power system increased 324.5% compared to the year earlier period after reinforcing the sales activities for corporate customers and the construction structure. Works on buildings and condominiums related to maintenance and management, on the other hand, decreased 4.3%. As a result, the Net Sales increased 43.8% to 3,965 million yen compared to last year.

The operating income increased 240.4% to 139 million yen compared to a year earlier, due to significant increase in sales.

Environmental Resources Development (ERD) Division

The sales from plastic fuel increased in terms of volume and unit price for collection, resulting in 29.8% increase compared to the year-earlier period. The revenues from electricity sales showed a significant increase of 46.3% compared to a year earlier, due to the start of stable power generation at Sanix Energy’s Tomakomai Power Plant as well as higher unit prices for electricity sales. In addition, organic waste-water processing recorded a 0.4% increase from last year. As a result, the net sales increased 25.9% to 14,967 million yen compared to the year earlier period.

The operating income increased 444.8% to 1,567 million yen, along with the division turning profitable due to stable inauguration of Tomakomai Power Plant, increase in revenues in “plastic fuel” and enhancement of profitability as a result of cost reduction.

(2) Prospect for Next Year

Prospect for next year is optimistic with an expectation for recovery of the economy surrounding our group companies owing to the views for the upturn in the domestic economy along with the effects of government economic measures and the financial measure taken by the Bank of Japan. In addition, the “Renewable Energy Feed in Tariff Purchasing Program” continues to be in effect, although the purchasing unit price was modified in April 2013 from 42 yen to 37.8 yen for 10kw or more, and our group will still be able to deploy our business actively. Therefore, we are considering that it is a good opportunity to make a significant expansion of our green energy business with electricity sales business.

In the CPS Division, we will continue our efforts to reduce cost for solar power modules and other components and to enhance efficiency in construction works to avoid occurrence of any disadvantages on the part of main contractor during the remaining payout time due to lower purchasing prices of commercial solar power. In addition, the division is expected to generate a significant profit increase as a main business unit of our group by starting our sales promotion in full scale.

The HS Division is expected to record decrease in sales, despite our efforts in providing undivided follow-ups, including maintenance of “solar power system”, “termite control” and “sub-floor / roof ventilation system”, for existing customers of our residential services.

The ES Division is expected to generate increased profit and better profitability, while engaged in sales and construction of the commercial solar power system for corporate customers owning buildings and condominiums.

In the ERD Division, we will continuously be working on enhancing the quality of plastic fuel for a better efficiency in power generation of Tomakomai Power Plant. Although the revenues from plastic fuel will be same level compared to a year earlier, the unit prices of electricity are expected to fall, and it will be a major renovation of the power plant once at two years, so the revenues from electricity sales are expected to decrease.

With the above-mentioned prospects, for the consolidated financial outlook for the next fiscal year of our whole group, we expect the Net Sales to increase 64.9% to 71,500 mbillion yen, the operating income to increase 327.7 % to 8,000 million yen, the ordinary income to increase 344.4 % to 7,950 million yen, and the net profit to increase 223.8 % to 5,100 million yen, compared to the year earlier period.

(3) Progress of Mid-term Business Plan

On April 22, 2010 , the group announced the mid-term business plan “Spring Plan 2012”, its medium-term business plan for three years from the year ended March 31,2011 through the year ended in March 31,2013.

The plan aims to build a foundation for further corporate growth, with the three business units of HS, ES and ERD in unity.

As part of their business strategies, the HS Division will enhance its solar power system and expand its share in the domestic residential market, while reinforcing the sales promotion structure targeting corporate customers. The ES Division will create a scheme to ensure the profitability of the business by selection and concentration. The ERD Division will further increase transaction of waste plastic in terms of volume and diversify delivering points, while ensuring stable operation of Tomakomai Power Plant by enhancing the quality of fuel, so that the division will contribute to the profitability of the whole group.

As an evaluation for the final period of the plan, ending in March 2013, our group successfully shifted our course to the commercial solar power business and deployed business capital there, which is another foundation for our growth. In addition, the electricity sales using plastic fuel are successfully established as one of the sources for the

profitability of our business.

Consequently, as the consolidated financial results for the period ending in March 2013, the final period for this mid-term business plan, the group obtained the Net Sales 43,366 million yen and the operating income of 1,870 million yen, compared to the planned sales and income of 28,000 million yen and 2,000 million yen, respectively.

2. Financial Condition

(1) Assets, Liabilities and Net Assets

Total assets amounted to 29,196 million yen at the end of the current consolidated fiscal year, a increase of 7,909 million yen from the end of the previous consolidated fiscal year. Liabilities amounted to 20,359 million yen, an increase of 6,207 million yen from the end of the previous consolidated fiscal year. Net assets totaled 8,837 million yen, a increase of 1,702million yen from the end of the previous consolidated fiscal year. Consequently, the ratio of owners' equity was 30.2%.

(Assets)

Current assets increased 110.4% from the end of the previous year to 14,651 million yen. This is primarily because notes and accounts receivable-trade and inventories increased by 4,047 million yen and 1,130 million.

Fixed assets increased 1.6% to 14,544 million yen. This is primarily because property, plant and equipment increased by 602 million yen by depreciation.

(Liabilities)

Current liabilities increased 77.5% from the end of the previous year to 14,873 million yen. This is primarily because notes and accounts payable-trade increased to 4,073 million yen.

Fixed liabilities decreased by 4.9% to 5,486 million yen. This is mainly because long-term loans payable decreased by 740 million yen by repaying a loan.

(Net Assets)

Net assets increased 23.9% to 8,837 million yen, mainly due to a net income of 1,575million.

(2) Cash Flows

As of March 31, 2013, cash and cash equivalents totaled 3,547 million yen on a consolidated basis, an increase of 2,181 million yen from as of March 31, 2012.

(Cash Flows from Operating Activities)

Net cash provided by operating activities totaled 2,184 million yen (increase of 924 million yen from the last year), mainly due to increase in notes and accounts receivable-trade of 4,746 million yen, despite income before income taxes of 1,912 million yen, increase in notes and accounts payable-trade of 4,013 million yen.

(Cash Flows from Investing Activities)

Net cash used in investment activities amounted to 222 million yen (increase of 70 million yen from the last year) mainly due to purchase of property, plant and equipment of 615million yen.

(Cash Flows from Financing Activities)

Net cash provided by financing activities amounted to 230 million yen (decrease of 1,111 million yen from the last

year) mainly due to increase of a short-term loan.

The Cash Flow Indicators:

	FY2008	FY2009	FY2010	FY2011	FY2012
Shareholders' equity ratio	51.3%	35.1%	34.7%	33.4%	30.2%
Shareholders' equity ratio on a market price basis	19.9%	42.1%	55.6%	53.3%	92.0%
Interest-bearing liabilities ratio to cash flow	—	13.10	136.73	5.34	3.24
Interest coverage ratio	—	3.60	0.29	7.36	13.30

(Note) Shareholders' equity ratio: $\text{Shareholders' equity} / \text{Total assets}$

Share ratio on a market price basis: $\text{Total market value of stock} / \text{Total assets}$

Interest-bearing liabilities ratio to cash flow: $\text{Operating cash flow} / \text{Interest payment}$

Interest coverage ratio: $\text{Operating cash flow} / \text{Interest payment}$

1. Each indicator is calculated based on consolidated financial results.
2. Total market value of stock is calculated by: closing price at the year-end x outstanding shares at the year-end.
3. The operating cash flow in this table is cash flow from operating activities reported on the consolidated cash flow statement. Interest-bearing liabilities cover all liabilities reported on the consolidated balance sheet for which interest is paid. Interest payment used in the calculation of the interest coverage ratio is the amount of interest expense reported on the consolidated cash flow statement.
4. Interest-bearing liabilities ratio to cash flow and interest coverage ratio data are not included in the table above for the year ended March 2009(FY2008) as the operating cash flow was negative in these years.

3. Basic Corporate Policy for Profit Distribution

SANIX operates its business focusing on the return profit to shareholders. One of our business policies is to increase dividends to shareholders by expanding the scope of our operators and improving earnings, while ensuring stable dividends based on the ratio according to shareholders' equity and other factors.

However, during the current year, the Company will not pay dividends for the year, considering retained earnings are negative, though the Company was able to record net income in the current consolidated fiscal year. The Company will strive for further improvement of operating results so that it can make stable distribution of profits to shareholders in the next fiscal year, meeting shareholders' expectations, based on operating results and future plans for business development.

4. Business and Other Risks

Major risks that may affect the operating results and business of the SANIX Group are described below. Recognizing the possibility of occurrence of these risks, the SANIX Group endeavors to take proper measures to avert these risks and minimize the impact in the event of occurrence.

Certain future-related statements included in this document are estimates made by the Company based on the information available at the end of the current fiscal year.

(1) Laws and regulations concerning door-to-door-sales

Sales activities of the HS Division are mainly conducted by the door-to-door calls, which should be made in compliance with, and are subject to restrictions of, the Specific Commercial Transactions Law and the Consumer Contract Law. From the viewpoint to strengthen the protection for consumers, the Company ensures compliance with applicable laws and regulations in order to protect our customers. However, if the Division fails to comply with the current and future laws and regulations applicable to its businesses, the operating results or financial position of the Division may be negatively impacted.

(2) Movement in the door-to-door-sales trade

Any further detection of dishonest housing improvement operators, and subsequent reports in the media might have a negative impact on the Company's future business.

(3) Regulations and market trend in relation to solar-power generation

After the “Special Measures Law in Relation to Purchasing the Electricity Generated from Renewable Energy by Electric Power Suppliers” went into effect, the market of the commercial solar power business is expected to enhance rapidly. However, if our customers become less willing to install the system because of prolonged payout time due to changes in feed in tariff or the in term of the purchasing program, there will be a possibility of disadvantageous effect on the performance or the financial state of the solar power business of our group.

(4)Laws and regulations concerning waste treatment

The businesses of the ERD Division require certain approvals and permits of administrative authorities, should satisfy environmental emission standards and should comply with the provisions of laws and regulations concerning waste treatment. If the Division fails to comply with the current and future laws and regulations applicable to its businesses, or if revenue expansion is offset by a huge amount of costs necessary to comply with severer regulations, the operating results or financial position of the Division may be negatively impacted.

(5) Resource recycling power generation system

In relation to the ERD Division, maintenance and enhancement of the quality of plastic fuel at Sanix Energy’s Tomakomai Power Plant is one of the critical elements for our stable operations. However, since plastic fuel originates from waste, any inconsistency in the quality or properties that may affect the stable operation of the power plant can give disadvantageous impact on the performance or on the financial state of the Company.

(6) Supply and Demand of Electricity

In relation to the ERD Division of the Group, the sales unit prices may change due to the fluctuations of supply and demand caused by seasonal factors or by the operations of nuclear power plants, which may impact the revenues from the electricity sales at Sanix Energy’s Tomakomai Power Plant. A more-than-expected drop in the unit prices for electricity sales may give a negative effect on the performance and the financial state.

(7)Retention and development of human resources

Our Group requires a great number of employees engaged in various functions of sales and technology; from contracting and customer management to construction. Therefore, any larger-than-expected shortage in the number of employees may give a negative effect on the performance and the financial state, although we are trying to employ actively experienced people in addition to new graduates regularly in an effort to secure and develop human resources.

(8) Industrial accident/ disaster

The SANIX Group endeavors to achieve accident-free and disaster-free operations in all aspects of its businesses. However, if a material industrial accident or disaster occurs in any plant of the SANIX Group, its reputation in society will be damaged, payment of compensations for damage and other costs will be incurred to respond to such accident/disaster. In addition, during the suspension of operation caused by such accident/disaster, the Company will incur opportunity loss, which may have negative impact on the operating results and financial position of the Company.

II. Group Outline

The Group consists of the Company and other 10 consolidated subsidiaries. Its major business fields are sales/construction of solar power system, environmental sanitary services for general households, environmental sanitary services for corporations and recycling-based power generation. The structure of each company in relation to the Group’s business fields is as following;

CPS Division: It promotes the “Renewable Energy Feed in Tariff Purchasing Program,” a measure taken by the government promoting green energy, and one of the consolidated subsidiaries, SANIX ENGINEERING INCORPORATED designs and install commercial solar power systems. In addition, the Company wholesales the

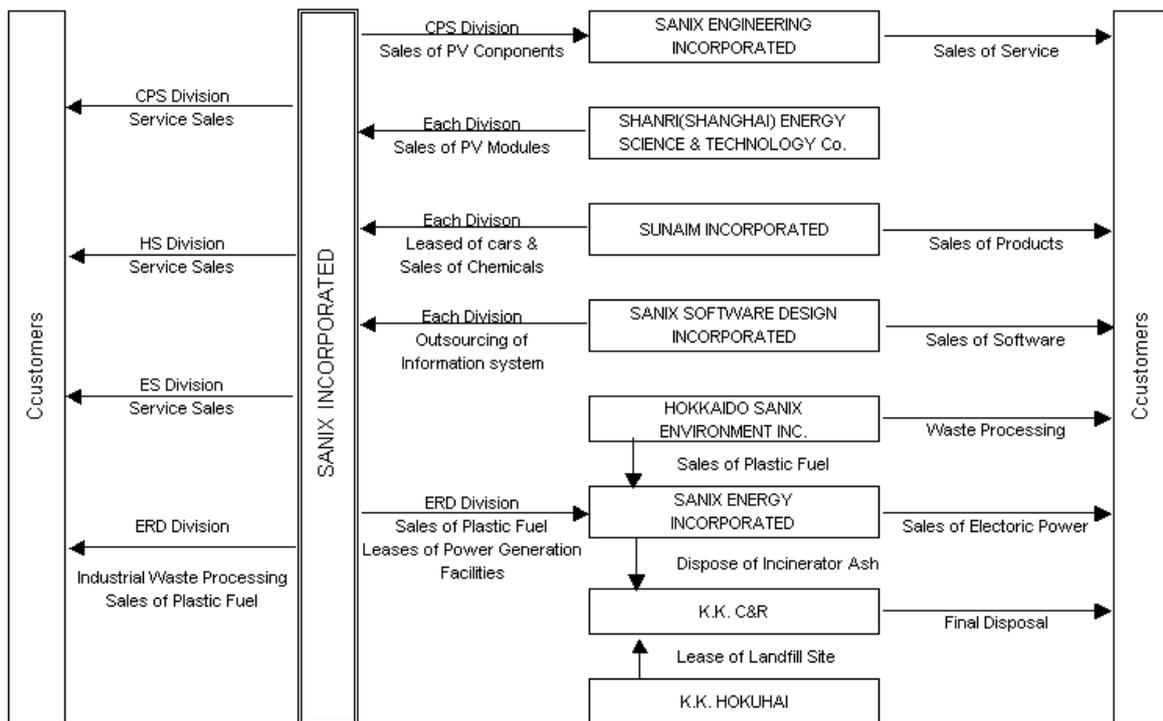
solar power system equipment.

HS Division: The Company offers environmental sanitation services for ordinary houses. The main services and products are Termite Eradication Service, Foundation Repairing Treatment, Under-Roof/Floor Ventilation System, and Solar Photovoltaic Power Generation System.

ES Division: The Company offers environmental sanitation services for offices and condominium. The main services are Anti-rust equipment installation, Repair of building water-works and Waterproofing of building and Solar Photovoltaic Power Generation System.

ERD Division: The Company sells plastic fuel to its consolidated subsidiary company SANIX ENERGY INCORPORATED. SANIX ENERGY generates and sells electricity by using plastic fuel as its main fuel, purchased from SANIX and HOKKAIDO SANIX ENVIRONMENT INCORPORATED, SANIX's consolidated subsidiary. K.K. C&R, SANIX's consolidated subsidiary, disposes of incinerator ash from SANIX ENERGY. K.K. HOKUHAI, SANIX's consolidated subsidiary, leases facilities to K.K. C&R.

In addition, the solar power modules that the Group installs or sells are purchased from a consolidated subsidiary SHANRI (SHANGHAI) ENERGY SCIENCE AND TECHNOLOGY CO.,LTD. The Company purchases chemicals used in each division, and leases vehicles for operations, from SUNAIM INCORPORATED, its consolidated subsidiary. The Company purchased information system services relating to each of its divisions from SANIX SOFTWARE DESIGN INCORPORATED.



III. Business Policies

1. Fundamental Business Policies

“Clean dirty places and sanitize unclean places” has consistently been the corporate mission of the Company since its inception, and it has been engaged in providing the society in general with environmental sanitary management services, including environmental sanitary services for general households and corporations, building maintenance services for commercial buildings and condominiums, as well as industrial waste disposal and recycling-based power generation services focusing mainly on recycling. It also set the commercial solar power generation as our core business to enhance our green energy business.

In these four areas, SANIX is aggressively developing its ecological business by exploring latent demand, improving services and technology and constantly tailoring services to best suit customer needs. In operating these businesses, SANIX is endeavoring to enhance its profitability and capital efficiency to maximize its corporate value.

2. Target Management Indices

Our Group’s middle to long term business strategy is to build the solar power business to establish the green energy sector and the environment-based power generation business to solidify our business foundation and to enhance profitability. The Company targets at achieving the ratio of operating profit to revenues of 15.0% in the medium term.

3. Medium- and Long-Term Business Strategies and Issues to Be Addressed

CPS Division

Along with the “Renewable Energy Feed in Tariff Purchasing Program,” a measure taken by the government promoting green energy, the division stimulates demand for commercial solar power generation, which is expected to generate a huge market, and we are planning to focus our business resources there. In the middle to long term, the purchasing prices are estimated to fall, but we will make efforts to enhance our market share through cost reduction for components and enhancement of construction efficiency, so that we will be able to provide systems at prices not prolonging the payout time for our clients.

(2) HS Division

The HS division is determined to make efforts to create a marketing organization that is closely connected to the local community, and to provide existing customers good after- sales service through our Termite Eradication Service, Under-Roof/Floor Ventilation Systems, and Solar Photovoltaic Power Generation System. The division will continue emphasizing compliance with applicable laws and regulations to ensure the protection of consumers. In the medium to long term, the Division aims expand our domestic market share of “Solar Photovoltaic Power Generation System” for house use with developing our exiting services.

(3) ES Division

The ES Division is cultivating markets mainly in the metropolitan areas where office buildings, apartment complexes, and other large facilities are concentrated. The Division provides maintenance and repairing service for water pipes and for maintenance and repairing all facilities in buildings and apartment houses. In addition, the Division strive to promote sales of the Solar Photovoltaic Power Generation System for housing complex. In the medium to long term, efficiency in marketing and installation work should be improved to reduce costs and increase sales, which will lead to improvement in the operating profit ratio.

(4) ERD Division

The main business of ERD division is resource-recycling power generation by using fuel recycled from waste plastic in its recycling plants. As for the application of waste plastic processed by the Division's plants, the Division pursues sales to other customers than power plants to expand the sales volume of plastic fuel for which demand is high as an alternative of fossil fuel. Expansion of the customer base will contribute to improvement of its business profitability.

4. Challenges the Company faces

We expect that the business environment surrounding the Company will remain severe; however, the environmental industry will play an important role in society due to a rising demand for environmental protection. Under such circumstances, the following are managerial challenges to be tackled in order for our four main businesses to prosper.

(1) Strengthening sales and management system

The Company needs to establish high quality sales and management systems, where we can increase close contact with our customers and cultivate underlying demand. SANIX, a team of experts, will firmly establish its brand image and employ efficient sales and management systems.

(2) Cost Reduction of Components Related to Solar Power System

The commercial solar power will expand its market rapidly in the future. The sales of the related products will rapidly increase and our Group is also considering such products to become our core products. Thus, one of the critical issues for our business is to increase our market share. The Group is intending to reinforce the power to purchase modules, power conditioners and other components, while making every effort to reduce costs to meet our customers' needs, including in-house manufacturing.

(3) A stable power plant operation in Tomakomai Power Plant and an improvement of output of power generation. A key issue for the Sanix Energy's Tomakomai Power Plant is a stable power plant and an improvement of output of power generation. Effect of the operation know-how made an ability for removing foreign materials from waste plastics improved, so we reap the result for a stable power plant operation and positive turnaround. In future, we will try to improve profitability further.

(4) Sales of plastic fuel

Along with increasing the amount of waste plastic processing, ERD division now sells plastic fuel. As plastic fuel could be an alternative energy source to fossil fuel, our foremost issue is to develop a suitable profile of this fuel, and secure the stable quality and volume of fuel production in order to meet customer demand. Hereafter, we promote our plastic fuel branding and expand sales of our fuel to the outside and make stable supply.

(5) Recruitment and training of employees

In accordance with our Management Philosophy, "Our job is to educate and education means management", we are committed to improve our services by recruiting more people and training employees. From the perspective of protecting customers, we are required to ensure compliance with applicable laws and regulations. The Company considers it is our corporate mission to raise the quality of our employees as well as products and services. Specifically, we are determined to provide employees with substantial training at each managerial class.

(6) Promotion of compliance

In order to be trusted by more customers and to provide comfortable environment more extensively, one of the most important issues for the Company is promoting strict compliance with laws and regulations, from the viewpoint of consumer protection, following our principle of "Customers Come First." Education and training will

be provided regularly to employees to enhance their morality and knowledge on legal compliance, to ensure delivery of safe and comfortable house environment to customers.

(7) Bolster disaster-prevention countermeasures

We make every effort to give first priority to safety at each plant in ERD division. Management takes seriously the gravity of the accident that occurred in the past, and has reviewed and strengthened its disaster prevention system to ensure safe operations of its business.

5. Other Significant Management Issues

No applicable matter.

IV. Consolidated financial Statements

1. Consolidated Balance Sheet

(thousands of Yen)

	As of March 31	
	FY2011	FY2012
Assets:		
Current Assets:		
Cash and deposits	1,365,530	3,559,160
Notes and accounts receivable-trade	3,309,437	7,356,616
Merchandise and finished goods	53,187	60,036
Work in process-construction	—	260,009
Raw materials and supplies	1,713,692	2,577,620
Deferred tax assets	244,668	298,920
Other	385,389	681,265
Allowance for doubtful accounts	(107,831)	(142,104)
Total Current Assets:	<u>6,964,074</u>	<u>14,651,525</u>
Fixed Assets:		
Property, Plant and Equipment:		
Buildings and structures, net	2,090,183	1,890,399
Machinery, equipment and vehicles, net	239,367	557,997
Land	8,979,529	8,889,529
Lease assets, net	213,923	351,243
Construction in progress	49,943	464,340
Other, net	150,751	172,607
Total Property, Plant and Equipment:	<u>11,723,699</u>	<u>12,326,117</u>
Intangible Fixed Assets:		
Goodwill	737,377	625,370
Other, net	59,105	60,123
Total Property, Plant and Equipment:	<u>796,482</u>	<u>685,493</u>
Investments and Other Assets:		
Investment securities	500,960	316,576
Lease and guarantee deposits	781,079	705,601
Deferred tax assets	128,645	95,696
Other	828,513	856,122
Allowance for doubtful accounts	(437,035)	(440,823)
Total Investments and Other Assets:	<u>1,802,163</u>	<u>1,533,173</u>
Total Fixed Assets:	<u>14,322,345</u>	<u>14,544,785</u>
Total Assets:	<u>21,286,420</u>	<u>29,196,310</u>

(thousands of Yen)

	As of March 31	
	FY2011	FY2012
Liabilities:		
Current Liabilities:		
Notes and accounts payable-trade	1,386,410	5,459,789
Short-term loans payable	2,325,000	3,338,000
Current portion of long-term loans payable	759,724	848,190
Accounts payable-other	2,330,436	3,166,433
Accrued expenses	825,338	931,437
Accrued income taxes	100,660	119,644
Lease obligations	157,942	362,883
Income taxes payable	196,872	249,243
Provision for bonuses	9,959	68,871
Allowance for resource-recycling expenses	40,611	12,320
Other	248,016	316,254
Total Current Liabilities:	8,380,971	14,873,068
Non-Current Liabilities:		
Bonds payable	70,000	50,000
Long-term loans payable	3,559,741	2,819,551
Lease obligations	173,125	272,054
Deferred tax liabilities	28,776	42,647
Long-term lease deposited	46,349	46,349
Provision for retirement benefits	1,382,781	1,419,934
Provision for directors' retirement benefits	178,256	179,756
Provision for disposal site closing expenses	331,431	373,699
Other	—	282,051
Total Non-Current Liabilities:	5,770,462	5,486,044
Total Liabilities:	14,151,433	20,359,113
Net Assets:		
Shareholders' Equity:		
Capital stock	14,041,834	14,041,834
Retained earnings	(5,377,499)	(3,733,267)
Treasury stock	(1,610,767)	(1,610,889)
Total Shareholders' Equity:	7,053,567	8,697,677
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	52,772	78,147
Foreign currency translation adjustment	—	32,356
Total Valuation and translation adjustments:	52,772	110,503
Minority Interests:	28,647	29,016
Total Net Assets:	7,134,986	8,837,197
Total Liabilities and Net Assets:	21,286,420	29,196,310

2. Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(thousands of Yen)

	from April 1 to March 31	
	FY2011	FY2012
Net sales	31,454,477	43,366,108
Cost of sales	21,012,601	29,995,849
Gross profit	10,441,876	13,370,258
Selling, general and administrative expenses	10,032,006	11,499,762
Operating income (loss)	409,869	1,870,495
Non-operating income:		
Interest income	6,197	5,978
Dividends income	11,411	11,530
Commission for insurance office work	3,967	3,774
Land and house rent revenue	67,675	69,985
Other	43,711	46,263
Total non-operating income	132,962	137,531
Non-operating expenses:		
Interest expenses	171,176	164,203
Rent expenses	2,413	2,308
Other	21,257	52,608
Total non-operating expenses	194,847	219,120
Ordinary income (loss)	347,984	1,788,906
Extraordinary income:		
Gain on sales of securities	—	138,075
Gain on sales of fixed assets	3,706	5,199
Total extraordinary income	3,706	143,274
Extraordinary loss:		
Loss on sales of fixed assets	78	—
Loss on retirement of fixed assets	8,678	794
Impairment loss	—	18,657
Loss on cancellation of lease contracts	1,458	—
Total extraordinary loss	10,215	19,452
Income (loss) before income taxes and minority interests	341,474	1,912,729
Income taxes-current	170,547	358,674
Income taxes-deferred	158,318	(21,325)
Total income taxes	328,865	337,348
Income before minority interests	12,608	1,575,380
Minority interests in income	(1,335)	368
Net income (loss)	13,944	1,575,011

(Comprehensive Income)

(thousands of Yen)

	from April 1 to March 31	
	FY2011	FY2012
Income before minority interests	12,608	1,575,380
Other comprehensive income		
Share of other comprehensive income of associates accounted for using equity method	20,152	25,374
Foreign currency translation adjustment	—	28,277
Total other comprehensive income	20,152	53,652
Comprehensive income	32,761	1,629,033
Comprehensive income attributable to		
Comprehensive income attributable to parent company	34,096	1,628,664
Comprehensive income attributable to minority interests	(1,335)	368

3. Consolidated Statements of Changes in Net Assets

(thousands of Yen)

	from April 1 to March 31	
	FY2011	FY2012
Shareholders' Equity		
Capital stock:		
Balance at the end of previous period	14,041,834	14,041,834
Changes of items during the period		
Total changes of items during the period	—	—
Balance at the end of current period	<u>14,041,834</u>	<u>14,041,834</u>
Retained earnings:		
Balance at the end of previous period	(5,391,444)	(5,377,499)
Changes of items during the period		
Net income	13,944	1,575,011
Change of scope of consolidation	—	69,221
Total changes of items during the period	<u>13,944</u>	<u>1,644,232</u>
Balance at the end of current period	<u>(5,377,499)</u>	<u>(3,733,267)</u>
Treasury Stock:		
Balance at the end of previous period	(1,610,766)	(1,610,767)
Changes of items during the period		
Purchase of treasury stock	(12)	(122)
Disposal of treasury stock	11	—
Total changes of items during the period	<u>(1)</u>	<u>(122)</u>
Balance at the end of current period	<u>(1,610,767)</u>	<u>(1,610,889)</u>
Total Shareholders' Equity:		
Balance at the end of previous period	7,039,624	7,053,567
Changes of items during the period		
Net income	13,944	1,575,011
Change of scope of consolidation		69,221
Purchase of treasury stock	(12)	(122)
Disposal of treasury stock	11	—
Total changes of items during the period	<u>13,943</u>	<u>1,644,110</u>
Balance at the end of current period	<u>7,053,567</u>	<u>8,697,677</u>

(thousands of Yen)

	from April 1 to March 31	
	FY2011	FY2012
Valuation and Translation Adjustments:		
Valuation difference on available- for-sale securities		
Balance at the end of previous period	32,620	52,772
Changes of items during the period		
Net changes of items other than shareholders' equity	20,152	25,374
Total changes of items during the period	20,152	25,374
Balance at the end of current period	52,772	78,147
Total Valuation and Translation Adjustments:		
Balance at the end of previous period	32,620	52,772
Changes of items during the period		
Changes of Foreign currency translation adjustment		4,078
Net changes of items other than shareholders' equity	20,152	53,652
Total changes of items during the period	20,152	57,731
Balance at the end of current period	52,772	110,503
Minority Interests:		
Balance at the end of previous period	30,307	28,647
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,660)	368
Total changes of items during the period	(1,660)	368
Balance at the end of current period	28,647	29,016
Total Net Assets:		
Balance at the end of previous period	7,102,551	7,134,986
Changes of items during the period		
Change of scope of consolidation		69,221
Changes of Foreign currency translation adjustment in change in scope of consolidation		4,078
Net income	13,944	1,575,011
Purchase of treasury stock	(12)	(122)
Disposal of treasury stock	11	-
Net changes of items other than owners' equity	18,491	54,021
Total changes of items during the period	32,435	1,702,210
Balance at the end of current period	7,134,986	8,837,197

4. Consolidated Cash Flow Statement

(thousands of Yen)

	From April 1 to March 31	
	FY2011	FY2012
Net Cash Provided by (Used in) Operating Activities:		
Income before income taxes and minority interests	341,474	1,912,729
Depreciation and amortization	371,049	386,714
Loss on disaster	—	18,657
Increase/ Decrease in reserve for retirement benefits	53,609	37,152
Increase/ Decrease in reserve for directors' retirement benefits	700	1,500
Increase/ Decrease in provision for bonuses	2	56,924
Decrease in allowance for resource-recycling expenses	18,814	(28,290)
Amortization of goodwill	112,006	112,006
Increase/decrease in allowance for doubtful accounts	2,631	38,060
Interest and dividends income	(17,608)	(17,508)
Interest expenses	171,176	163,440
Gain/ Loss on sales of fixed assets	(3,627)	(5,199)
Loss on retirement of fixed assets	8,678	794
Increase/ Decrease in notes and accounts receivable-trade	(788,338)	(4,746,431)
Increase/ Decrease in inventories	(124,458)	(967,335)
Increase/ Decrease in other current assets	(27,740)	442,900
Decrease in notes and accounts payable-trade	518,627	4,013,467
Increase/ Decrease in consumption tax refund receivable	18,465	56,512
Increase/ Decrease in other current liabilities	970,076	1,131,171
Other	83,677	(94,866)
Subtotal	1,709,217	2,512,401
Interest and dividends income received	17,601	17,492
Interest expenses paid	(166,911)	(165,264)
Payment for damage repairing	(28,629)	—
Income taxes paid	(271,132)	(202,285)
Income taxes refund	—	22,383
Net cash provided by operating activities:	1,260,145	2,184,726

(thousands of Yen)

	From April 1 to March 31	
	FY2011	FY2012
Net Cash Provided by (Used in) Investment Activities:		
Increase in time deposits	—	(11,300)
Proceeds from sales of securities	—	258,075
Proceeds from sales of property, plant and equipment	4,128	103,643
Purchase of property, plant and equipment	(92,949)	(615,817)
Payments for lease and guarantee deposits	(11,212)	—
Proceeds from collection of lease and guarantee deposits	18,956	48,600
Purchase of investment securities	(68,669)	(3,790)
Other	(1,580)	(1,714)
Net cash provided by investing activities:	(151,327)	(222,302)
Net Cash Provided by (Used in) Financing Activities:		
Increase (decrease) in short-term loans payable	(100,000)	1,013,000
Proceeds from long-term loans payable	—	210,000
Repayment of long-term loans payable	(760,747)	(861,724)
Proceeds from issuance of bonds	100,000	—
Redemption of bonds	(10,000)	(20,000)
Repayments of finance lease obligations	(104,903)	(108,801)
Net decrease/ increase in treasury stock	(1)	(122)
Cash dividends paid	(325)	(1)
Other	(5,659)	(2,158)
Net cash provided by financing activities:	(881,635)	230,192
Effect of exchange rate changes on cash and cash equivalents	—	(11,055)
Net increase (decrease) in cash and cash equivalents	227,182	2,181,561
Cash and cash equivalents at beginning of period	1,138,347	1,365,530
Net increase (decrease) in cash and cash equivalents in change in scope of consolidation	—	768
Cash and cash equivalents at the end of period	1,365,530	3,547,860

Segment Information

Segment Information by Type of Business

Prior consolidated fiscal year (From April 1, 2011 to March 31, 2012)

(Thousands of Yen)

Segments	CPS	HS	ES	ERD	Total	Elimination	Consolidated or Group
Sales:							
Sales to customers	1,411,086	15,395,655	2,757,129	11,890,605	31,454,477	—	31,454,477
Internal sales among segments and transfer accounts.	—	—	—	—	—	—	—
Total	1,411,086	15,395,655	2,757,129	11,890,605	31,454,477	—	31,454,477
Operating income(loss)	(252,730)	2,469,253	41,243	285,693	2,543,460	(2,133,590)	409,869
Assets	240,563	4,835,752	1,128,277	10,026,909	16,231,502	5,054,917	21,286,420
Others:							
Depreciation expenses	—	61,786	13,306	345,732	420,825	62,230	483,056
Amortization of goodwill	—	—	—	—	—	—	—
Capital expenditures.	—	3,317	411	290,573	294,303	13,973	308,277

Consolidated fiscal year (From April 1, 2012 to March 31, 2013)

(Thousands of Yen)

Segments	CPS	HS	ES	ERD	Total	Elimination	Consolidated or Group
Sales:							
Sales to customers	9,617,646	14,814,917	3,965,643	14,967,900	43,366,108	—	43,366,108
Internal sales among segments and transfer accounts.	—	—	—	—	—	—	—
Total	9,617,646	14,814,917	3,965,643	14,967,900	43,366,108	—	43,366,108
Operating income(loss)	320,368	1,775,560	139,481	1,567,654	3,803,065	(1,932,569)	1,870,495
Assets	3,735,173	6,439,869	1,139,765	10,125,736	21,440,546	7,755,764	29,196,310
Others:							
Depreciation expenses	10,519	49,712	9,711	371,927	441,871	56,949	498,821
Amortization of goodwill	—	—	—	—	—	—	—
Capital expenditures.	180,108	66,311	1,866	791,198	1,039,484	62,779	1,102,264